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IN THE
SUPREME COURT OF THE UNITED STATES.

OCTOBER TERM, 1942.

No. 696.

A. W. ALTVATER and THE WESTERN SUPPLIES COMPANY,
Petitioners,

v.

BENJAMIN W. FREEMAN and THE LOUIS G. FREEMAN CO.,
Respondents.

REPLY BRIEF FOR PETITIONERS.

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REPLY BRIEF FOR PETITIONERS.

Statement.

Respondents' brief seems to us to be very confused and lacking in form with argument scattered through every section. Even pursuing arguments from section to section therein, we do not find that it meets the issues presented by the Petition for Certiorari and by our main brief. The most favorable view of respondents' argument is that it is confession and avoidance.

At the outset, we should like to note that there are a number of instances wherein ulterior motives are attributed to petitioners, either directly or indirectly. Of course,

statements of such character do not aid in deciding the legal issues. Petitioners have fought respondents for over ten years because petitioners have felt they were right. We feel that when this litigation is finally ended, which, *deo volante*, will not be much longer, we shall have been completely vindicated. No action in any of the suits between these parties has been taken by petitioners for any reason other than that such action appeared to be the proper action to enforce a proper legal position.

The issues before this Court are those set forth on page 18 of our main brief and somewhat expanded in the summary of argument on pages 19 and 20. They fall into two main issues and several subissues. The first main issue is that the Court of Appeals erred in reversing the District Court's judgment of invalidity, the reissue patents being invalid for a number of specified reasons. The second main issue was that the Court of Appeals established improper law in the Eighth Circuit in dismissing the counterclaim, there being three subissues to this main one.

The plan of this reply brief will be to collect respondent's arguments and to relate them to these issues, and determine whether or not the issues are answered.

Before proceeding with the foregoing plan, it is noted that respondent's principal argument is that there is no controversy between the parties hereto, because petitioners paid royalties on certain dies for a period of several years. We shall explain the circumstances of these payments, and point out the reasons why they did not eliminate the controversy between the parties. However, at the outset let it be noted that *no royalties* were paid on the dies accused by the bill, and that the first two subissues as to rights under the declaratory judgment act are based upon these two dies. *Only on the third subissue of the second main issue is the payment of these royalties material.*

First Main Issue—Invalidity of the Reissues.

This issue of invalidating the reissues is, of course, the primary thing we seek here. We ask that these patents be struck down at some time before they naturally expire year after next. We ask this for one reason, and that only: they are invalid and should not stand as a threat over petitioner's business and the public.

The reissue patents are invalid for a number of reasons, comprising subissues under the main issues. We shall restate each reason without reargument, and glean from respondents' brief any attempted answer thereto.

Reissues Invalid—Improper Disclaimer Voided Original Patent.

The first subissue is that the original patent became invalid for improper disclaimer prior to the reissues. Against this respondents argue: "That the disclaimer was but part of the reissue proceedings, and that the patents are to be considered as reissue patents with no right asserted against the public by virtue of the disclaimer." The noted statement is far from clear.

When it is said that "the disclaimer was but part of the reissue proceedings," the answer is obvious that, that there is no disclaimer other than the statutory disclaimer made pursuant to R. S. 4917 and 4922. In other words, a disclaimer means nothing unless it is a disclaimer in accordance with the statute. Therefore, it must conform to all the requirements of that statute. This one certainly did not do that.

The latter clause of the statement quoted from respondents' brief seems to us to be meaningless. During the month after which the disclaimer had been filed and before they were granted any reissue, Freeman's total rights were asserted through the *original* patent.

Furthermore, the statement in the disclaimer was not that Freeman had disclaimed all of the other claims that did not distinguish from the ones held invalid, but merely that "he has filed a reissue application for reissue of the said letters patent, in which he has omitted the claims above disclosed, and in their place . . .". The claims "above disclosed" were precisely the ones held invalid and no others. Therefore, the disclaimer did not indicate that the reissue applications would not reclaim these indistinguishable claims which, as a matter of fact, they did.

A further point is that the mere fact that Freeman had applied for reissue patents did not mean that he could not have withdrawn them from issue and have returned completely to the original patent. This is a familiar procedure that usually occurs when the Patent Office rejects not only the claims new to a reissue, but also claims present in the original patent. This demonstrates that the disclaimer must be considered as something not governed by the reissue statutes, but governed by its own statutes.

Respondents' argument that the disclaimer was unnecessary can be dismissed with the statement that the argument avails nothing. The disclaimer was actually filed, whether properly or improperly, and governs the present situation.

From the foregoing it can be seen that respondents have not adequately answered the argument made in our main brief that the disclaimer invalidated the original patent prior to the issuance of the reissue, and thereby destroyed all basis for grant of the reissues.

As to the actual comparison of claims disclaimed and claims retained, no serious argument is made that the original patent did not contain claims after the disclaimer that they were indistinct from those disclaimed. Our main brief has noted three such claims in some detail, one of which, claim 9, was eliminated by reissue. However,

claim 9 was present for the month period prior to grant of the reissues, which was sufficient to invalidate the entire patent. No effort is made to deny the lack of distinction between claims 9 and 7 (Respondents' Brief, page 28). Respondents say that since claim 9 was not included in the reissue "no further comment is required." Hence, if this Court finds, as we submit it should, that the presence of a claim in a patent after disclaimer that is indistinct from claims retained, renders that original patent void and incapable of supporting reissue patents, then, undoubtedly, the decision must be for petitioners.

Petitioners' main brief also compared claims 6 and 87. Respondents attempt to make what is clearly a spurious distinction between these two claims on the theory that claim 87, because it includes a bed and a pressing member, is for a different invention than is claim 6; but no new invention or combination can possibly be made by the addition to a die of a bed and a presser member independently movable relative to the die. *Every machine in the prior art shows this*, and most certainly these two claims are not "definitely distinguishable." We use the words of R. S. 4922.

Petitioners compared claims 19 and 79 in the main brief. Respondents argue that these claims are not indistinct because they allege that the point of claim 7 was that the particular mask plate of Freeman was bent. The answer to this is that whatever may be the particular construction of the Freeman mask in the abstract, claim 19 does not say anything about a bent mask plate. In other words, the claim will stand or fall by its own wording and not by the manner in which it might have been worded.

The disclaimer was an open abandonment of all claim to the subject matter of the disclaimed claims. Whether this abandonment was to be followed by a reissue or not, it could not be a giving away by one hand and a holding

back by the other. Under the *Maytag* case rule, the original patent became void as of the date of the disclaimer. Nothing was left upon which to base a valid reissue.

Reissues Invalid—They Include Subject Matter Indistinct From That Disclaimed.

A further issue in the main brief is that the reissues are invalid for including subject matter indistinct from that disclaimed. The essence of this argument was that there could be no inadvertence, accident or mistake where the reissues purport to reassert just what was claimed in the original, but held invalid; that the reissue statute cannot be used as a means to avoid the penalties for failure to comply properly with the disclaimer statute; and that the reissue statute cannot be used to preclude a court from ruling on the propriety of a disclaimer.

None of these arguments developed at pages 34 and 35 of our main brief is answered, or given any treatment in respondents' brief.

Reissues Invalid—Even if *Maytag* Rule Is Not Applied.

The third issue is that the reissues are invalid, even if the *Maytag* rule is not applied. A number of reasons are set forth in our main brief beginning page 36. The reasoning discussed the fact that other claims of the reissues merely added familiar old details to the elevated anvil held invalid by the *Premier* decision (Cf. *Ross v. Fuller & Warren Co.*, *supra*). These arguments have not been treated at all, much less answered.

Before passing the question of validity of the reissue, we note that respondents complain that the attack on the reissues made by the pleadings was limited to technical grounds arising out of comparison of claims with claims held invalid in the *Premier* decision. In answer to this, it is to be noted that all of the grounds for invalidity

urged by petitioners are based upon the results of the *Premier* decision, and we so stated on page 8 of our main brief. It seems also that this is completely evident from a discussion of the reasons given for invalidation of the reissues.*

It is quite evident from the foregoing that respondents make no real argument for validity of the reissues. A complete review of respondents' brief leads to the conviction that they recognized the reissues as invalid, but seek to avoid adjudication thereof.

Second Main Issue—Rights of Petitioners to Declaration of Invalidity.

It is under this heading that respondents argue that by payment of royalties until the reissues were held invalid, petitioners eliminated the controversy between the parties. We noted that this argument applied to only one of three reasons advanced in support of the declaration of invalidity.

The three reasons why petitioners had a right to a declaration of invalidity are: First, that a defendant has an absolute right to adjudication on a counterclaim of an issue made by bill and answer; second, that if there is any choice in the court as to whether it shall entertain such counterclaim, then improper use of the patents compels selection of an adjudication as to validity, and, third, that

*However, if this were not true, respondents would be in no position to object to our raising exactly the same questions that were presented to the District Court and to the Court of Appeals below. The record shows full testimony by petitioners in support of each ground of invalidity here urged (R. 505-513, 513-821, 901-919, etc.). If this Court cares to have them, we shall be glad to present briefs in the courts below to show that these points were argued. Note, also, that paragraphs 12-16 and 20 (R. 44) pleaded invalidity of both reissues for improper disclaimer and for improper reissue and prayer IV (R. 48) asked the Court "To declare void reissue letters patent 20,202 and 20,203 . . ." Such is ample. *Metro-Goldwyn-Mayer Corp. v. Fear*, 104 F. (2d) 892, 899 (C. C. A. 9).

a counterclaim raising issues not made by bill and answer, should not have been dismissed.

It is evident that the first and second reasons above are based upon issues no broader than those of the bill and answer. The complaint charged petitioners with not paying royalties on certain dies. Therefore, as to the first and second reasons, there can be no contention that payment of royalties on other dies has any influence.

**Right of Petitioners to Declaration of Invalidity on Issues
Also Made by Bill and Answer.**

Petitioners contend that when the issue arose between the parties as to enforcement of contract rights involving payments for infringement of the reissues, they had a right to a declaration of invalidity of the patents. They could have exercised this right by filing a separate declaratory bill, which would have insured a decision on validity. They did exercise it by counterclaiming in the suit already filed by respondents.

At the time the pleadings of bill, answer and counterclaim were made up there were two unmistakable controversies between the parties, viz., validity and infringement of the reissues. Each was as much the basis of a controversy as the other. The District Court decided *both* issues in favor of petitioners.

Respondents quote the following passage from the Court of Appeals' decision (Resp. Br., p. 18):

“ ‘The trial court having found no contract of license between the parties, and having found no infringement, the other issues became moot, and there was no longer a justiciable controversy between the parties’ (citing *Electrical Fittings v. Thomas and Betts*, 307 U. S. 241, and other cases).”

How can the Court of Appeals say that decision of non-infringement rendered *validity* moot. The trial court de-

cided both. Why did the Court of Appeals not say that the decision of invalidity rendered *infringement* moot? The answer is that they held themselves foreclosed by an erroneous interpretation of the *Electrical Fittings* case. But even on bill and answer, we would have as much right to insist that the trial court first decided invalidity, and thereby rendered *infringement* moot, as our opponents would have the right to urge the contrary.

We, however, had a counterclaim in the case, presenting our separable case of invalidity. What the Court of Appeals did was to decide respondents' case and throw our case out of court. This is the indisputable fact, even though the decision in respondents' case was in our favor. The issues on the bill and answer were only those presented by respondents in the bill. The Court of Appeals did not merely refuse to pass on our *defense* to the bill; it dismissed our *entire suit*. We contend that under the Declaratory Judgment Act we had a right to be in court as plaintiffs by counterclaim, and the court had no right to select respondents' case rather than our case. Our rights to the federal courts are just as great as respondents. Hence this is not an appeal from a refusal of the court to decide the case on a ground desirable for us; it is an appeal from the dismissal of our entire suit.

That right exists whether the issues of the counterclaim are broader than those of bill and answer or not. There must be no arbitrary choices made by the courts that favor one litigant over another.

Furthermore, in the present case there was not only a showing, but actually a finding, that respondents had used their patents to obtain improper monopolies.

If there is a choice whether to decide the counterclaim or not, and we contend, as above, there is not, then certainly the presence of such improper practices is ample ground to compel the choice to be exercised in favor of making the declaration. In fact, the public interest,

guarded by the courts rather than either litigant, demands that the counterclaim be entertained and validity adjudicated.

Consequently, even if in the absence of the unclean hands, the decision of noninfringement rather than invalidity was necessary under the *Electrical Fittings* case or for any other reason, there is indeed no matter of choice or discretion that can hold off a decision of invalidity in the face of the existence of the improper uses of the patent.

Thus, whatever be said for our rights to an adjudication of validity on issues beyond those made by bill and answer, we had a right to adjudication on those very issues*—a right under the statute not to be denied by any arbitrary action or mistaken interpretation of inapplicable decisions of this Court. But if there were any choice, we had a right to the adjudication in the present case because respondents used the patents to obtain improper monopolies.

Right of Petitioners to Declaration of Invalidity On Issues Beyond Bill and Answer.

The final issue raised by petitioners is that in the present case the dismissal of the declaratory counterclaim was improper because the counterclaim raised issues beyond

*A discussion and analysis of this point appears in *Benz v. J. Laskin & Sons Corp.*, 43 F. Supp. 799, the Court sustaining the counterclaim for declaration of invalidity because of loss of money already spent preparing the case on invalidity, the uncertainty, the contingent future liability, and possible loss of witnesses. See also *Dominion Electrical Mfg. Co. v. Edwin L. Wiegand Co.*, 126 F. (2d) 172 (C. C. A. 6), wherein the Court said that decision of noninfringement without invalidity is frequently unsatisfactory. At page 174 the Court said:

"* * * *Electrical Fittings Corp. v. Thomas Betts Co.*, 307 U. S. 241, 59 S. Ct. 860, 83 L. Ed. 1263, illustrates the point that mere exoneration from infringement does not always meet the necessities of a wrongfully accused defendant. His activities are still circumscribed by the monopoly based upon the patent grant. Convinced that the patent (or the trade-mark) is invalid, he is still hampered and embarrassed by the necessity of avoiding trespass * * * He wishes to be freed from the restrictions of an invalid patent or trade-mark, and he represents not only himself, but, in a sense, also the public which is likewise excluded from the field of monopoly. The Declaratory Judgment Act furnishes him with the means of escape. We see no reason why it should not be available to him as a counterclaim when circumstances would have permitted a separate suit. * * *

the scope of the bill and answer. In other words, the bill and answer hinged about two specific dies upon which no royalties had been paid, whereas, the counterclaim went further and injected the matter of other dies, which, admittedly, infringe the patents if they are valid. Since a mere decision that the two dies accused in the bill do not infringe does not determine the issue of the hundreds of other dies, admittedly infringing, then, most certainly, the court below was wholly in error in dismissing the counterclaim.

To this respondents answer that petitioners paid royalties to Freeman on these outside dies up until the decision of the District Court below of invalidity of the reissue patents.

This matter of the payments requires a consideration of the rights of petitioners at the time of the grant of the reissue patents.

When the *Premier* decision held the original Freeman patent largely invalid, and particularly after respondents had disclaimed all of the claims held invalid, petitioners, as licensee under that patent, had a right then completely vested in them to take the position that the Freeman patent had been invalidated. *Ross v. Fuller & Warren Co.*, 105 F. 510, and *Drackett Chemical Co. v. Chamberlain Co.*, 63 F. (2d) 853. In other words, the estoppel to contest validity resting upon a licensee has always yielded to permit the licensee to take advantage of some extraneous declaration of invalidity. And under the *Ross* case, *supra*, the licensee could go further and could urge that even though the extraneous declaration of invalidity dealt with only some of the claims, the licensee could set up invalidity of the remaining claims over those extraneously invalidated.

It is completely evident in the present case that that vested right residing in petitioners to take advantage of

the invalidation of the Freeman patent by the *Premier* case was of great value.*

However, respondents reissued their patent, which necessarily involved a surrender thereof, effective as of the date of the reissue, namely, December 8, 1936. The surrender of the original patent, as the court below found, terminated petitioners' contract.

Therefore, the day before the date of reissue, petitioners had (1) their business in these dies, (2) a license to continue the business, and (3) *they also had a vested right to contest validity* of the original patent to the extent that invalidity could spring out of the *Premier* decision and the disclaimer. On the next day, when the reissues were granted, petitioners still had the business, but they had no license. Thereupon, respondents made the spurious offer of December 8, 1936, in which they asserted their claim over petitioners under the reissue patents, stating in the letter that the old license would be unchanged except for substitution of the new reissue numbers in place of the old original patent numbers.

If petitioners had taken this license, they would have had (1) their business, and (2) a license, but *they would then have lost their vested right to contest validity* because of the eviction. Both parties have agreed that if petitioners had accepted the reissues, on the terms proposed, they would have done so in the face of the declaration of invalidity, and, therefore, would have, under the doctrine *caveat emptor*, taken them as they were.

This situation is the hornbook case for declaratory judgment.

For the above reasons, petitioners took the position, first, that the reissue patents were invalid, which was their right as licensees under the original patent after the eviction; and, second, that if there would remain any validity, then they equitably had a right to a license under such remaining part.

*This right was also of great value to the public.

That is not seeking an advisory action. It is not advisory to demand invalidation of patents. It is not advisory to demand a license under patents. It is not advisory to ask that the first demand be decided first, as it is obviously pointless—and wrong—for a court to order a license issued under invalid patents. Note *Grip Nut Co. v. Sharp*, 124 F. (2d) 814, wherein a declaration of non-infringement and license was sought.

It is abundantly true that at the time the declaration of invalidity or license was sought there were sharp controversies between the parties. In fact, there was the present suit, in which respondents were demanding specific performance of a contract which they averred to comprise the terms of the original contract with a substitution of *both* reissues [not one, as respondents say, but both (R. 40)].* Petitioners were refusing to recognize any such contract, or any such liability, as both courts below found, and which cannot now be disputed. Petitioners were vigorously contending that the patents were void, but that they were equitably entitled to a license to continue their business, if the reissues were valid. Any realistic view of the situation must recognize that a sharp controversy existed. *Chicago Metallic Mfg. Co. v. Edward Katzinger Co.*, 123 F. (2d) 518 (C. C. A. 7); *Creamery Package Mfg. Co. v. Cherry Burrell Corp.*, 115 F. (2d) 980 (C. C. A. 3).

Petitioners were also under an injunction in the first *Freeman v. Altrater* suit, *supra*. This injunction compelled recognition of the original contract between the parties. Petitioners could not afford not to pay royalties as required by this injunction, as such could subject them to contempt proceedings. The Court of Appeals said (R. 947) that petitioners "paid the royalties due on the same basis as before and as required by the injunctive order

*Disputes sufficiently real and concrete to warrant patent infringement suits between adversaries or those in privity with them are sufficiently concrete and real to sustain a suit under the Declaratory Judgment Act. *E. W. Bliss Co. v. Cold Metal Process Co.*, 102 F. (2d) 105, 109 (C. C. A. 6).

in the original suit.” On February 19, 1942, petitioners sought discharge of the injunction on the ground that it ordered specific performance of a contract adjudicated not to exist. For unknown reasons, respondents have opposed this effort, forcing us into the Court of Appeals where it now pends—all in spite of the fact that there can be no shadow of doubt that *since the decision herein* the injunction has no meaning.†

Payment of royalties under this injunction did not constitute any acts of agreement to substitution of the re-issues in the old contract. So both courts below held. And payments made under compulsion of injunction could not constitute acts destroying all of the controversy between these parties.

Petitioners have always contended that the contract terminated by December, 1936, and both courts below so held. But petitioners’ contention that they were entitled to a license under any valid claims of Freeman was a request that the court do equity to them. As he who seeks equity must do equity, petitioners offered payments to respondents.

The foregoing shows that the payments were not made pursuant to any existing contract. They were made under the most active kind of protest, as the Court of Appeals below held. They were made in a situation where the parties had taken the most irreconcilably adverse positions. If they had no contractual significance, and were paid under protest, and under duress of injunction, then respondents were only bailees of them, and they could have no effect whatever upon controversies otherwise existing between the parties.

Where one party presses complete contract rights as licensor of patents against another, and the other, possessing a right to continue his business, tenders royalties under protest, and under injunction, while contending by

†Prior to the decision herein, there had been no decision holding the old contract terminated.

active litigation that the first party has no patent rights, there are clear controversies between the parties that are cognizable under the Declaratory Judgment Act.

Respondents aver that no controversy existed because the payment of the so-called royalties prevented a suit against them for infringement. This is shown to be false by several things. In the first place, the present suit actually brought, necessarily required a proof of infringement. It is totally sophistic to argue that because this case was nominally for specific performance, it did not actually involve infringement.* However, beyond that, is the fact that there has been no contract between the parties since 1936, as the courts below found. There was nothing at any time since to prevent a suit by respondents for an injunction against the continued sale by petitioners of these dies. There was nothing to prevent respondents from collecting profits as distinguished from damages. *Petitioners were certainly subject to suit at any time respondents cared to sue them.*

Since respondents were claiming rights against petitioners under the reissues, and petitioners were opposing the claims, and since petitioners had an unmistakable equitable right to continue the business, they had a right to a declaration that their business should not be subjected to an injunction at the whim of the respondents. This again is a typical situation for application of a declaratory judgment. *Chicago Metallic Mfg. Co. v. Edward Katzinger Co.*, 123 F. (2d) 518 (C. C. A. 7). Note that this result was accomplished in *National Pigments & Chemical Co. v. C. K. Williams & Co.*, 94 F. (2d) 792 (C. C. A. 8).

There has been a continuous controversy between the parties hereto. Any other view is hardly realistic. As the Court pointed out in *Creamery Package Mfg. Co. v. Cherry Burrell Co.*, 115 F. (2d) 980, the parties have been

**Sola Electric Co. v. Jefferson Electric Co.*, 87 L. ed. 150 ... U. S. sustained the counterclaim in a suit for specific performance.

dealing at arm's length for years, including bitterly contested litigation.

The truth of the matter is that respondents know their patents are invalid, but attempt to build a false screen of technicality to avoid having the Court take its one real opportunity to adjudicate the fact.

Respondents' Illegal Contract Situation.

Respondents relegate their attempted excuses for their illegal uses of their patents to an Appendix, in furtherance of a vigorous effort to exclude any consideration thereof from this case.

It is true that their patents are no more or no less invalid because of these practices. But the necessity for scrutiny of the patents, and the necessity for adjudication as to validity on petitioners' counterclaim, is stronger because of the fact that the patents are the heart of these monopolistic practices. If equity must exercise its discretion to refuse its offices to a patent owner whose hands are soiled by improper, monopolistic practice,* then equity must likewise exercise its discretion to entertain and implement a counterclaim by which a defendant makes the issue of invalidity.

We noted four illustrations of improper practice in our main brief. They were the machine leases compelling lessees to buy all dies, patented or otherwise, from respondents or their licensees; and the die licenses restricting their licensees from selling any competing licenses, requiring royalty payments on all dies, patented or unpatented, and preventing the licensees from selling machines beyond the scope of the Freeman reissues.

Petitioners have never contended that the grant of licenses is illegal. To the contrary, when done reasonably, it promotes competition and public welfare. But just as

**G. S. Suppiger Co. v. Morton Salt Co.*, 314 U. S. 488.

harmless leasing of real estate can be made harmful by improper restrictions, so legal licensing under patents can be made highly detrimental to public good by improper restrictions.

It cannot be denied—and is not—that the four practices criticized above comprised agreements to prevent free competition by unpatented dies and machines. *This cannot be done under patents.* It was done not only by the 1923 leases that existed until after this suit was tried, but also by the leases in Volume II of this Record, which, with two exceptions, exist to this day with all of their improper restrictions.

Conclusion.

It is submitted that the present case is one wherein invalid patents have been used for nearly fifteen years as means to secure monopolies not only unjustified because of the invalidity of the patents themselves, but illegal because actually beyond the scope of the invalid patents. Respondents make little defense against the invalidity, but seek to evade adjudication thereof, and maintain their patents in force for their final two and one-half years of their life. This attempted evasion is based upon the false and clearly unreal argument that there is no controversy between the parties. This is but a screen, through which the light of the reality of the continuous private conflict and the urgent public need, will surely penetrate.

Respectfully submitted,

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St. Louis, Missouri, April 12, 1943.